

COURT OF APPEAL, FIRST CIRCUIT  
STATE OF LOUISIANA



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FINANCIAL STATEMENT AUDIT  
ISSUED JUNE 20, 2007

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May 1, 2007

Independent Auditor's Report  
on the Financial Statements

**COURT OF APPEAL, FIRST CIRCUIT**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the accompanying special purpose (legal basis) financial statements of the Court of Appeal, First Circuit, a court within Louisiana state government, as of and for the year ended June 30, 2006, as listed in the foregoing table of contents. These financial statements are the responsibility of management of the Court of Appeal, First Circuit. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in note 1-B to the financial statements, the accompanying special purpose financial statements present only the funds of the Court of Appeal, First Circuit. As such, they present the appropriated and non-appropriated activity of the court that are part of the accounts and fund structure of the State of Louisiana. The General Appropriation Fund reflects appropriated activity of the court that is part of the General Fund of the State of Louisiana. The non-appropriated fund is an individual fund of the State of Louisiana not subject to budgetary control. Furthermore, the special purpose financial statements have been prepared on a legal basis of accounting, the purpose of which is to reflect compliance with the annual appropriation act for the appropriated fund and the financial position of the non-appropriated fund. These procedures differ from accounting principles generally accepted in the United States of America as described in the notes to the financial statements. The effects on the financial statements of the variances between legal basis accounting practices and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

## COURT OF APPEAL, FIRST CIRCUIT

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In our opinion, because of the effects of the matter discussed in the preceding paragraph, the accompanying special purpose financial statements referred to previously were not intended to and do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of each fund of the Court of Appeal, First Circuit, as of June 30, 2006, or changes in financial position thereof for the year then ended.

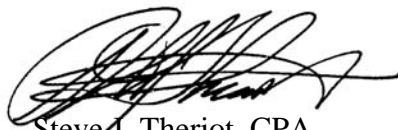
In our opinion, the accompanying special purpose financial statements referred to previously present fairly, in all material respects, the balances within the appropriated and non-appropriated funds of the Court of Appeal, First Circuit as of June 30, 2006, and the transactions of such funds for the year then ended, on the basis of accounting described in note 1-D.

During August and September of 2005, the State of Louisiana suffered considerable damage from two major hurricanes, Katrina and Rita, resulting in the President of the United States declaring Louisiana a major disaster area. Because of the severity of these two separate events and the resulting losses sustained, it is unknown exactly what economic impact recovery will have on state and local governmental operations in Louisiana. While the Court of Appeal, First Circuit did not directly suffer any major effects from these two hurricanes, the long-term effects of these events on the Court of Appeal, First Circuit cannot be determined at this time.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 1, 2007, on our consideration of the Court of Appeal, First Circuit's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

This report is intended solely for the information and use of the court and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,



Steve J. Theriot, CPA  
Legislative Auditor

MMG:WDG:PEP:dl

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**COURT OF APPEAL, FIRST CIRCUIT  
STATE OF LOUISIANA  
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS**

**Balance Sheet (Legal Basis), June 30, 2006**

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL (MEMORANDUM ONLY)
<b>ASSETS</b>			
Cash and cash equivalents (note 2)	\$93,116	\$903,740	\$996,856
Accounts receivable	7,209	12,533	19,742
Due from other funds	148,876		148,876
Prepaid items	28,522		28,522
<b>TOTAL ASSETS</b>	<b>\$277,723</b>	<b>\$916,273</b>	<b>\$1,193,996</b>
<b>LIABILITIES AND FUND EQUITY</b>			
Liabilities:			
Accounts payable	\$143,939	\$7,272	\$151,211
Payroll payable	60,803		60,803
Due to other funds		148,876	148,876
Total Liabilities	204,742	156,148	360,890
Fund Equity - fund balance - reserved (note 7)	72,981	760,125	833,106
<b>TOTAL LIABILITIES AND FUND EQUITY</b>	<b>\$277,723</b>	<b>\$916,273</b>	<b>\$1,193,996</b>

The accompanying notes are an integral part of this statement.

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**COURT OF APPEAL, FIRST CIRCUIT  
STATE OF LOUISIANA  
ALL APPROPRIATED AND NON-APPROPRIATED FUNDS**

**Statement of Revenues, Expenditures, and  
Changes in Fund Balances (Legal Basis)  
For the Year Ended June 30, 2006**

	APPROPRIATED FUND - GENERAL APPROPRIATION	NON- APPROPRIATED FUND - FEE ACCOUNT	TOTAL (MEMORANDUM ONLY)
<b>REVENUES</b>			
Court fees		\$154,395	\$154,395
Judges' Supplemental Compensation Fund		19,090	19,090
Copy fees		20,201	20,201
Interest and other earnings	\$1,087	11,441	12,528
Total revenues	1,087	205,127	206,214
<b>EXPENDITURES</b>			
Appropriated expenditures:			
Personal services	6,491,634		6,491,634
Travel	200,730		200,730
Operating services	736,898		736,898
Supplies	49,767		49,767
Other charges	150,375		150,375
Capital outlay	276,435		276,435
Non-appropriated expenditures:			
Operating services		1,707	1,707
Other charges		50	50
Supplies		257	257
Judges' Supplemental Compensation Fund		19,090	19,090
Total expenditures	7,905,839	21,104	7,926,943
<b>EXCESS (Deficiency) OF REVENUES OVER EXPENDITURES</b>	(7,904,752)	184,023	(7,720,729)
<b>OTHER FINANCING SOURCES (Uses)</b>			
Transfer from Supreme Court	7,500,495		7,500,495
Operating transfers	146,912	(146,912)	
Total other financing sources (Uses)	7,647,407	(146,912)	7,500,495
<b>EXCESS (Deficiency) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES</b>	(257,345)	37,111	(220,234)
<b>FUND BALANCES AT BEGINNING OF YEAR</b>	330,326	723,014	1,053,340
<b>FUND BALANCES AT END OF YEAR</b>	\$72,981	\$760,125	\$833,106

The accompanying notes are an integral part of this statement.

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## INTRODUCTION

The Court of Appeal, First Circuit is a part of the State of Louisiana reporting entity within the judicial branch of government. The court is provided for in Article V, Sections 8 through 13 of the Louisiana Constitution of 1974 and Sections 311 through 392 of Title 13 of the Louisiana Revised Statutes of 1950. The court's operations are funded through an annual lapsing appropriation made by the Louisiana Legislature and from self-generated revenues authorized by Louisiana Revised Statute (R.S.) 13:352. In addition to the fees mandated by R.S. 13:352 relative to appeals, applications for writs, motions filed on unlodged appeals, and answers to appeals, the court, in compliance with R.S. 13:10.3(E) and in conformity with the Judges' Supplemental Compensation Fund, charged an additional fee of \$19.00. The total amount collected in connection with the Judges' Supplemental Compensation Fund is remitted to the Judicial Administrator's Office of the Supreme Court of Louisiana.

The Court of Appeal, First Circuit has appellate jurisdiction as authorized under Article V, Section 5 of the Louisiana Constitution, over the parishes of Ascension, Assumption, East Baton Rouge, East Feliciana, Iberville, Lafourche, Livingston, Pointe Coupee, St. Helena, St. Mary, St. Tammany, Tangipahoa, Terrebonne, Washington, West Baton Rouge, and West Feliciana. In addition, the court has supervisory jurisdiction, subject to the general supervisory jurisdiction of the Supreme Court of Louisiana, over all lower courts in all cases in which an appeal would extend to the court of appeal. The Court of Appeal, First Circuit is domiciled in Baton Rouge and has 12 judges and 99 additional employees.

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### A. BASIS OF PRESENTATION

The Governmental Accounting Standards Board (GASB) promulgates accounting principles generally accepted in the United States of America and reporting standards for state and local governments. These principles are found in the *Codification of Governmental Accounting and Financial Reporting Standards*, published by the GASB. However, the accompanying financial statements have been prepared on a legal basis, which differs from accounting principles generally accepted in the United States of America as explained in the following notes.

### B. REPORTING ENTITY

GASB Codification Section 2100 has defined the governmental reporting entity to be the State of Louisiana. The court is included within the State of Louisiana reporting entity because the state exercises oversight responsibility and has accountability for fiscal matters as follows: (1) the state has control and exercises authority over budget matters; (2) state appropriations provide the largest percentage of total revenues; and (3) the court primarily serves state residents. The accompanying financial statements present information only as to the transactions of the court within the judicial branch of state government.

Annually, the State of Louisiana issues basic financial statements that include the activity contained in the accompanying financial statements. The Louisiana Legislative Auditor audits these basic financial statements.

### **C. FUND ACCOUNTING**

The Court of Appeal, First Circuit uses fund accounting, along appropriation lines, to reflect its compliance with provisions of the annual appropriation act and to reflect the financial position and results of operations of its non-appropriated fund. This differs from the fund accounting of accounting principles generally accepted in the United States of America where the intent is to measure the financial position and results of operations of the governmental reporting entity as a whole. Therefore, the funds within the accompanying financial statements have been divided between appropriated and non-appropriated funds and not by the conventional fund types of accounting principles generally accepted in the United States of America.

The funds do not include any noncurrent assets or liabilities. Noncurrent assets, capital assets, and long-term liabilities are reflected in the State of Louisiana's basic financial statements.

The funds presented in the special purpose financial statements are described as follows:

#### **General Appropriation Fund**

The General Appropriation Fund provides for the general administrative expenditures of the court.

#### **Non-Appropriated Fund - Fee Account**

The Fee Account is used to account for filing fees and other revenues received by the court, as provided by R.S. 13:352 and 13:10.3. Expenditures incurred in excess of the amount appropriated by the legislature (General Appropriation Fund) are funded from this account.

### **D. BASIS OF ACCOUNTING**

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The funds in the accompanying financial statements measure the resources provided by the legislature to fund current year expenditures and the use of those resources by the court. This differs from accounting principles generally accepted in the United States of America in which the measurement focus would be to measure the flow of current resources.

Basis of accounting refers to when revenues and expenditures are recognized and reported in the financial statements, regardless of the measurement focus applied. The accompanying financial statements reflect revenues and expenditures in accordance with

applicable statutory provisions and regulations of the Judicial Budgetary Control Board. These legal requirements differ from generally accepted accounting principles as follows:

1. Revenues are recognized to the extent that they have been appropriated and not necessarily when measurable and available.
2. Expenditures are recognized to the extent that appropriation authority has been extended to the court and not necessarily when the fund liability has been incurred.

Under the foregoing legal provisions, the court uses the following practices in recognizing revenues and expenditures:

### **Revenues**

Self-generated revenues are recognized when earned. Interest income on time deposits is recorded when the time deposits have matured and the interest is available.

### **Expenditures**

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Furthermore, any expenditure of a long-term nature for which funds have not been appropriated during the current year is not recognized in the accompanying financial statements.

### **Other Financing Sources (Uses)**

The transfer from the Supreme Court represents the appropriation from the state General Fund and is recognized in the amount appropriated, to the extent withdrawn from the state treasury. Operating transfers are recognized when they become measurable and available.

## **E. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include cash on hand, demand deposits, money market accounts, and a certificate of deposit. Under state law, the court may deposit funds within a fiscal agent bank organized under the laws of the State of Louisiana, the laws of any other state in the Union, or the laws of the United States. Furthermore, the court may invest in time certificates of deposit of state banks organized under the laws of the State of Louisiana, national banks having their principal offices in Louisiana, in savings accounts or shares of savings and loan associations and savings banks, and in share accounts and share certificate accounts of federally or state-chartered credit unions.

**F. PREPAID ITEMS**

The court establishes prepaid expenditures for membership dues, rental agreements, and travel advances. Payments made for such items that will benefit periods beyond June 30, 2006, are recorded as prepaid items.

**G. LONG-TERM OBLIGATIONS**

The court is not allowed by statute to incur bonded indebtedness and, therefore, no recognition within the accompanying financial statements is necessary. Furthermore, any long-term obligations of the court arising from lease commitments, judgments, compensated absences, or from any other source are not recognized in the accompanying special purpose financial statements.

**H. BUDGET PRACTICES**

The general appropriation made for the operations of the court is an annual lapsing appropriation. Amounts not expended or encumbered should be returned to the state General Fund on or before September 1, 2006. The general appropriation for fiscal year 2006 was expended or encumbered.

The accompanying financial statements do not present a budgetary comparison because the appropriated fund is budgeted in lump sum and the non-appropriated fund is not subject to budgetary control. The budget authorized by Act 56 of the 2005 Regular Session of the Legislature for the appropriated fund was \$7,712,591, which was subsequently reduced by \$212,096 by the Judiciary Budgetary Control Board. In accordance with provisions of the budget act, the budget was supplemented by interest earnings of \$1,087, establishing a total budget of \$7,501,582.

**I. JUDGES' SALARIES**

The salaries of the judges are paid directly by the Supreme Court of Louisiana with warrants drawn on the state treasury and are not included in the expenditures of the accompanying financial statements.

**J. LEAVE BENEFITS**

The clerk of court, the director of central staff, the director of security, and their respective staff members, as well as selected employees of the judges, earn annual and sick leave at various rates depending on their years of service. The amount of annual and sick leave that may be accumulated by each employee is unlimited. Upon termination, employees are compensated for unused annual leave up to 300 hours at the employee's hourly rate of pay. Unused annual leave in excess of 300 hours plus unused sick leave may be credited as service for purposes of computing retirement benefits for those employees who are members of the Louisiana State Employees Retirement System.

Some court employees also earn compensatory time at a rate of one and one-half hours per hour worked over 40 hours per week. Employees may not accrue more than 240 hours of compensatory time. Upon termination, employees are compensated for up to 240 hours of unused compensatory leave at the employee's hourly rate of pay.

The cost of current leave privileges is recognized as a current year expenditure in the General Fund - General Appropriation Fund when leave is actually taken. The liability for unused annual and compensatory leave payable at June 30, 2006, computed in accordance with the *Codification of Governmental Accounting and Financial Reporting Standards* Section C60, is estimated at \$411,538. The leave payable is not recorded in the accompanying financial statements.

Other law clerks and secretaries employed by particular judges are employees of those judges. As such, they are subject to the guidelines set by the judge. There is no set policy for these employees. With respect to these employees of the judges, upon termination of employment with the court, all unused annual and sick leave is forfeited; therefore, no liability for these employees exists for unused leave payable at June 30, 2006.

#### **K. TOTAL COLUMNS ON STATEMENTS**

The total columns on the statements are captioned Memorandum Only (overview) to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position or results of operations. Neither is such data comparable to a consolidation.

### **2. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents (book balances) are composed of the following:

Cash on hand	\$754
Cash in demand accounts	46,885
Interest-bearing demand deposits	93,116
Money market accounts	667,266
Certificate of deposit	188,835
	<hr/>
Total	<u><u>\$996,856</u></u>

Cash and cash equivalents are stated at cost, which approximates market. Under state law, these deposits must be secured by federal deposit insurance or the pledge of securities owned by the fiscal agent bank. The market value of the pledged securities plus the federal deposit insurance must at all times equal the amount on deposit with the fiscal agent. These pledged securities are held in the name of the court in a holding or custodial bank that is mutually acceptable to both parties. The court has deposit balances (collected bank balances) of \$1,286,834 at June 30, 2006, for which the court has control. These deposits are secured from risk by \$200,000 of federal

deposit insurance and \$1,086,834 of pledged securities held in the name of the court in a federal reserve bank.

### **3. PENSION PLANS**

Substantially all employees of the court are members of the Louisiana Clerks Retirement and Relief Fund (LCRRF) or the Louisiana State Employees Retirement System (LASERS). LCRRF is a cost-sharing, multiple-employer defined benefit pension plan administered by a separate board of trustees. LASERS is considered a single-employer plan. LCRRF and LASERS provide retirement, disability, and survivors' benefits to plan members and beneficiaries. Benefits granted by LASERS are guaranteed by the State of Louisiana by provisions of the Louisiana Constitution of 1974. Generally, all full-time employees are eligible to participate in the systems, with employee benefits vesting after 10 years of service. Article 10, Section 29 of the Louisiana Constitution of 1974 assigns the authority to establish and amend benefit provisions to the state legislature. The systems issue annual publicly available financial reports that include financial statements and required supplementary information for the systems. The reports may be obtained by writing to the Louisiana Clerks Retirement and Relief Fund, 11745 Bricksome Avenue, Suite B1, Baton Rouge, Louisiana 70816, or by calling (225) 293-1162, and the Louisiana State Employees Retirement System, Post Office Box 44213, Baton Rouge, Louisiana 70804, or by calling (225) 922-0600.

The contribution requirements of plan members and the court are established and may be amended by the state legislature. The legislature annually sets the required employer contribution rate equal to the actuarially required employer contribution as set forth in R.S. 11:102. Employees contribute 8.25% (LCRRF) and 7.5% (LASERS) of covered salaries. The court's contribution to LCRRF was 15.75% of annual covered payroll for the fiscal year ended June 30, 2006; 14.5% of annual covered payroll for the fiscal year ended June 30, 2005; and 11.5% of annual covered payroll for the fiscal year ended June 30, 2004. The contribution rate to LASERS was 19.1% of annual covered payroll for fiscal year ended June 30, 2006; 17.8% of annual covered payroll for the fiscal year ended June 30, 2005; and 15.8% of annual covered payroll for the fiscal year ended June 30, 2004. The court's employer contribution is funded by the State of Louisiana through the annual appropriation to the court. The court's employer contributions to LCRRF for the years ended June 30, 2006, 2005, and 2004, were \$203,392; \$179,567; and \$138,471, respectively, and to LASERS for the years ended June 30, 2006, 2005, and 2004, were \$676,964; \$584,391; and \$504,049, respectively, equal to the required contributions for each year.

### **4. POSTEMPLOYMENT HEALTH CARE AND LIFE INSURANCE BENEFITS**

The court provides certain continuing health care, dental care, and life insurance benefits for its retired employees. Substantially all of the court's employees become eligible for these benefits if they reach normal retirement age while working for the court. These benefits for retirees and similar benefits for active employees are provided through insurance companies whose monthly premiums are paid jointly by the employee and the court. The court's costs of providing retiree health care, dental care, and life insurance benefits are recognized as expenditures when the



monthly premiums are paid. For the year ended June 30, 2006, the cost of retiree benefits totaled \$169,758.

**5. JUDGMENTS, CLAIMS, AND  
SIMILAR CONTINGENCIES**

Obligations and losses arising from judgments, claims, and similar contingencies are paid through the state's self-insurance fund or by General Fund appropriation and are not reflected in the accompanying special purpose financial statements. The self-insurance fund is operated by the Office of Risk Management, the state agency responsible for the state's self-insurance program.

**6. LEASE AND RENTAL COMMITMENTS**

For the fiscal year ending June 30, 2006, the court's rental expenditures amounted to \$130,615 for judicial office space and \$52,025 for equipment. The annual rental payments for operating leases for future fiscal years are as follows:

Fiscal year:	
2007	\$50,100
2008	36,600
2009	36,600
2010	29,100
2011	18,600
2012-2015	<u>65,100</u>
Total	<u><u>\$236,100</u></u>

All lease agreements have non-appropriation exculpatory clauses that allow for lease cancellation if the Louisiana Legislature does not make an appropriation for their continuation during any future fiscal period.

The court has no capital lease agreements for the fiscal year ended June 30, 2006.

**7. FUND BALANCE RESERVES**

The Appropriated Fund - General Appropriation has a reserved fund balance totaling \$72,981. These funds consist of \$40,252 for a mediation program, \$28,522 for prepaid expenditures, and \$4,207 for operating expenditures. These funds may be retained and used to defray the expenditures of the court as allowed by Act 56 of 2005.

The Non-Appropriated Fund - Fee Account has reserves for continuing operations of \$760,125. These funds may be retained and used to defray the expenditures of the court as prescribed by R.S. 13:352.

**8. DEFERRED COMPENSATION PLAN**

Certain employees of the court participate in the Louisiana Public Employees Deferred Compensation Plan adopted under the provisions of the Internal Revenue Code Section 457. Complete disclosures relating to the Plan are included in the separately issued audit report for the Plan, available from the Louisiana Legislative Auditor, Post Office Box 94397, Baton Rouge, Louisiana 70804-9397.

**OTHER REPORT REQUIRED BY**  
***GOVERNMENT AUDITING STANDARDS***

The following pages contain a report on internal control over financial reporting and on compliance with laws and regulations and other matters required by *Government Auditing Standards*, issued by the Comptroller General of the United States. This report is based on the audit of the financial statements and includes, where appropriate, any reportable conditions and/or material weaknesses in internal control or compliance and other matters that would be material to the presented financial statements.

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May 1, 2007

Report on Internal Control Over Financial Reporting and on  
Compliance and Other Matters Based on an Audit of the Financial Statements  
Performed in Accordance With *Government Auditing Standards*

**COURT OF APPEAL, FIRST CIRCUIT**  
**STATE OF LOUISIANA**  
Baton Rouge, Louisiana

We have audited the special purpose (legal basis) financial statements of the Court of Appeal, First Circuit as of and for the year ended June 30, 2006, and have issued our report thereon dated May 1, 2007. Our report was modified to indicate that the financial statements present fairly the financial position and changes in financial position of the court on a legal basis rather than in conformity with accounting principles generally accepted in the United States of America. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Court of Appeal, First Circuit's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the special purpose financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. However, we noted a certain matter described below involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Court of Appeal, First Circuit's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

**Control Weaknesses in Fiscal Matters**

The Court of Appeal, First Circuit (Court) did not have adequate controls over certain fiscal matters including compliance with certain laws, timely deposits of criminal court filing fees, and security over investments. The following control weaknesses were noted:

- The Court did not submit monthly fee remittances to the Judges' Supplemental Compensation Fund (Fund) by the tenth of the following

month as required by Louisiana Revised Statute (R.S.) 13:10.3(C). In our analysis of fiscal year 2006 remittances, we found that 11 of the 12 monthly remittances (92%), totaling \$16,905, were not submitted by the tenth of the following month, ranging from 6 to 198 days late. The Court submitted \$19,090 to the Fund in fiscal year 2006.

- The Court did not submit a report of abandoned property as required by R.S. 9:159 to the Unclaimed Property Division of the Louisiana Department of the Treasury by the required deadline of November 1, 2005. We noted seven checks totaling \$3,060 that have been outstanding in excess of one year, qualifying them as abandoned property.
- The Court did not have adequate controls to ensure the timely deposits of criminal court filing fees. Good business practice requires that policies and procedures be established to safeguard cash assets, with deposits to be made at least weekly. During our audit, we tested 26 of 154 deposits (16.8%) and noted that deposits ranged from 16 to 77 days from receipt to deposit, for an average 35 days. The total amount not deposited timely accounted for \$9,250 of the \$46,150 (20%) criminal writ filing fees billed in fiscal year 2006.
- The Court could not provide current security collateral agreements with its depository institutions to ensure that the Court has a perfected security interest in collateral pledged in excess of FDIC coverage, as required by Federal Institutions Reform Recovery and Enforcement Act.

Failure to implement and follow adequate control procedures over certain fiscal matters increases the risk of misappropriation of assets and noncompliance with laws and regulations.

The Court of Appeal, First Circuit should implement and follow control procedures that will ensure the submission of transmittals to the Judges' Supplemental Compensation Fund by the tenth of the following month; ensure the reporting of abandoned property to the Louisiana Department of the Treasury by November 1 of each year; and ensure the timely execution of fee deposits. Furthermore, the Court should ensure that it has a current security agreement with each depository institution that will provide a perfected security interest in collateral pledged in excess of FDIC coverage. Management concurred with the finding and outlined corrective action (see Appendix A).

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all

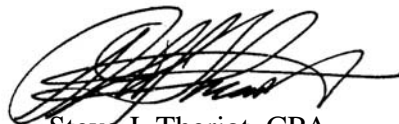
reportable conditions that are also considered to be material weaknesses. However, we believe that the reportable condition described previously is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the Court of Appeal, First Circuit's special purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the court and its management and is not intended to be, and should not be, used by anyone other than these specified parties. Under Louisiana Revised Statute 24:513, this report is distributed by the Legislative Auditor as a public document.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Steve J. Theriot", is written over a horizontal line.

Steve J. Theriot, CPA  
Legislative Auditor

MMG:WDG:PEP:dl

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Management's Corrective Action  
Plan and Response to the  
Finding and Recommendation

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**COURT OF APPEAL  
FIRST CIRCUIT**

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JUDGES

April 16, 2007

Mr. Steve J. Theriot, CPA, Legislative Auditor  
Office of the Legislative Auditor  
P.O. Box 94397  
Baton Rouge, Louisiana 70804-9397

Dear Mr. Theriot:

This letter is the official response of the First Circuit Court of Appeal to the reportable audit finding: "Control Weaknesses in Fiscal Matters" dated April 12, 2007.

This finding contains four subparts, each of which are addressed after the following brief description of the Court's situation in regard to the operations of the Business Services Office since the Business Service Manager, a certified public accountant (CPA), fell ill in January 2006.

Prior to the discovery of the Manager's illness, she and her sole assistant in the Office, an Accounting Specialist 2, were already falling behind in meeting the growing demands of the work in the Office. The Manager's illness simply exacerbated the already deteriorating situation. For the budget request process beginning in late 2005, the Court was hamstrung from requesting additional personnel for the Office due to the immediate economic impact on the state's budget post-Katrina.

From January through May 2006, the Manager was periodically absent for treatment. In May, the Court engaged the services of Postlewaithe and Netterville, LLC. (P&N) to assist in the operations of the Office as much as possible. The Manager regrettably died September 2, 2006, leaving the position vacant. From November through February 16, 2007, the Accounting Specialist 2 exited on a combination of extended emergency leave and FMLA entitlement, leaving the Office vacant. The Court requested P&N to handle the Office operations on a contractual basis, but it should be noted that their staff does not have the requisite expertise and institutional knowledge that this Court needs to comply with the many and varied rules and regulations applicable to a small, public body.

The advertisement for the replacement of the Business Services Manager was placed as quickly as feasible in September 2006. Because of the critical nature of this position, the interview and selection process was necessarily deliberate. The Court is fortunate to now have a qualified and experienced CPA filling the position; however, her actual start date was not until December 1, 2006. To assist the new Manager in the vacated Office, the Court hired a temporary bookkeeper at that time. For the past four and a half months, the Manager has worked on organizing the Office operations with the intent to address critical deadlines, to institute adequate fiscal controls and to comply with law. The Court extended the temporary bookkeeper contract through June 30, 2007 while the Court determines if the additional position requested for fiscal year 2008 for the Office is approved in the budget process. This additional position is vital for the Court to insure adequate resources are available in the Office to maintain the necessary internal reforms being made by the Court to address this finding.

Response to Subpart (1)

The Court concurs in the finding concerning monthly fee remittances to the Judges' Supplemental Compensation Fund. The newly engaged Business Services Manager, Elizabeth LeSaicherre, is responsible for the corrective action to insure these payments are timely made. She has instituted a routine procedure with the current Office staff to review and verify the requisite reports for the remittances to be made timely before the tenth of the following month. For the March 2007 remittance, the Court made payment on April 9, 2007, thereby timely remitting the fees before the legal deadline. The Court will continue to make remittance timely, and therefore, considers corrective action completed as of April 9, 2007.

Response to Subpart (2)

The Court concurs in the sub-part of the finding concerning the failure to submit a report of abandoned property as required by La. R.S. 9:159. The combination of events post-Katrina, the illness of the Business Services Manager, and the inadequate resources for the operations of the Office caused this failure. The newly engaged Business Services Manager, Elizabeth LeSaicherre, is responsible for the corrective action to insure compliance with La. R.S. 9:159. She has the requisite experience from her previous employment to complete this task no later than June 30, 2007 for any abandoned property outstanding from fiscal year 2006. The Court will then file a new report timely before November 1, 2007 for any subsequently abandoned property. Therefore, the Court anticipates corrective action will be completed as of June 30, 2007.

Response to Subpart (3)

The Court concurs in the sub-part of the finding concerning the failure to timely deposit criminal court fees. Again, the combination of events post-Katrina, the illness of the Business Services Manager, and the inadequate resources for the operations of the Office caused this failure. The newly engaged Business Services Manager, Elizabeth LeSaicherre, is responsible for the corrective action to insure compliance with good business practices to safeguard cash assets. She has set up the following "Protocol for Criminal Billing Deposits" to be implemented beginning April 30, 2007. Therefore, the Court anticipates corrective action will be completed as of this date.

Protocol for Criminal Billing Deposits

Criminal Bills are sent out monthly to Parishes and City Courts. The payments to the Court are received in the mail from the Parishes sporadically throughout the month.

As noted by the Legislative Auditor, good business practice requires that policies and procedures be established to safeguard cash assets, with deposits at least weekly.

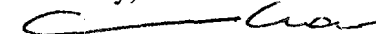
Therefore, checks received are to be stored in the safe in the Business Services Office. A deposit of these checks will be made within a week of receipt into the Fee Fund account at Capital One Bank. If any one check received is \$500 or above, all checks accumulated since the last deposit will be deposited the next business day.

Response to Subpart (4)

The Court concurs in the sub-part of the finding concerning the inability to provide current security collateral agreements with depository institutions. The illness and death of the Business Services Manager and the buy-out of both of the Court's depository institutions caused this inability. Although I seem to recall executing such documents, they could not be located in the files maintained by the deceased Business Services Manager; the new depository institutions apparently did not have copies transferred from the selling institutions. The newly engaged Business Services Manager, Elizabeth LeSaicherre, is responsible for the corrective action to obtain the requisite security collateral agreements. A Continuing Deposit Security Agreement was signed with JPMorgan Chase Bank on April 2, 2007 and a Security Agreement for the Collateralization of Public Funds was signed with Capital One on April 13, 2007. Therefore, the Court determines corrective action was completed as of April 13, 2007.

If we can be of further assistance or if you need additional information, please contact me.

Sincerely,



Christine L. Crow, Clerk of Court

cc: Judges, First Circuit Court of Appeal  
Elizabeth LeSaicherre, Business Services Manager